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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001510

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TAGS: PREL ECON ETRD KU BA

SUBJECT: GOK SAYS KUWAIT AIR WILL PRIVATIZE BEFORE BUYING NEW AIRCRAFT, CRITICIZES TELECOM COMPANY'S MOVE TO BAHRAIN

REF: A. KUWAIT 1393

¶B. KUWAIT 1409

Classified By: CDA Alan Misenheimer for reasons 1.4 (b) and (d).

¶11. (C) Summary and Comment: CDA paid a courtesy call on the Acting Communications Minister Abdul Wahid Al-Awadi on October 11. Al-Awadi said that GOK is eager to purchase two Boeing 777s and one 787 Dreamliner for the Amir but timing and price are holding up the deal. Al-Awadi expects Kuwait Airways Corporation (KAC) to be privatized within two months of the new Parliamentary session which convenes on October

¶130. (Note: Post considers two months to be a highly optimistic estimate.) All KAC commercial aircraft purchases are on hold until privatization is complete, and the GOK will lease planes in the meantime. Al-Awadi accused MTC, the country's largest telecommunications company, of moving its headquarters to Bahrain to avoid compulsory donations to the Kuwaiti science foundation. However, per Ref B, MTC's move had much more to do with Kuwait's generally unfavorable business climate, and it is disappointing that the GOK does not seem to have gotten the message. End Summary and Comment.

¶12. (SBU) Al-Awadi said the GOK is eager to purchase three Boeing aircraft, two 777s and one 787 Dreamliner, for the Amiri Diwan (the office of the Amir and his staff). The GOK has approached Boeing for these planes but has been unable to resolve issues of price and timing. Al-Awadi explained that GOK is not willing to wait until 2016 for the delivery of airplanes. The Amiri Diwan wants the planes by 2010. Al-Awadi said that airlines have purchased slots for planes for a down payment of 500,000 USD and are now selling these slots for 15 million USD. He said that his ministry cannot justify such an outrageous expenditure. (Note: Boeing offered the GOK the option of purchasing slots at a premium from other airlines that have early delivery dates, but the GOK allowed the deadline to pass without responding to the offer.) Al-Awadi said the GOK has already ordered one 747 for the Amir, which should be delivered next year.

¶13. (SBU) On KAC's failed deal with Kuwaiti aircraft leasing company ALAFCO (Ref A), Al-Awadi accused ALAFCO of offering prices that were too steep to be economical for KAC. According to Al-Awadi, the markup on planes through the ALAFCO deal was exorbitant, as much as 10 to 12 million USD on each airplane. He contended that it is in the GOK's best interest to deal directly with Boeing and Airbus instead of purchasing through a third or fourth party as was the case

with ALAFCO. He said the primary concern for the GOK on the ALAFCO deal was corruption. The GOK wants a "clean deal" at a reasonable price in a timeframe that meets KAC's needs.

¶4. (C) Al-Awadi said that GOK will not make any deals to purchase new aircraft for KAC. The Ministry will wait for KAC to privatize and then let the new private company purchase new planes. In the meantime, Al-Awadi expects to lease planes to meet the short-term needs of the airline. The Minister expressed confidence that the privatization of KAC will happen within two months of the start of the new Parliamentary session which begins on October 30. He assured the CDA that the entire process should be complete within one year, at which time KAC will be ready to start negotiations on new aircraft purchases. Boeing will be able to compete with Airbus for the sale of commercial aircraft once KAC is privatized, he said. (Comment: The GOK has been telling us for over two years that it expects to pass a national privatization law, but the controversial draft legislation has languished in Parliament alongside a number of other economic reform bills. Given the current tensions between the Government and the Parliament, Al-Awadi's privatization timeline seems rather optimistic.)

¶5. (SBU) Al-Awadi admitted that the road to privatization will be tough because Kuwaiti citizens do not have confidence in private companies. They are afraid that employment opportunities for Kuwaitis will be scarce in a private KAC. Some MPs are opposed to privatization because they are afraid of its effects on local employment. (Note: 95% of Kuwaiti citizens work in the public sector. Private companies are, however, required to hire a small percentage of Kuwaitis.) To boost confidence and generate public support for the privatization of KAC, the GOK is contemplating offering free shares in the new company to Kuwaiti citizens. Al-Awadi is

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hopeful that this may encourage more MPs to support privatization. If the KAC privatization is successful, this will clear the way for the privatization of other sectors like electricity, the postal service, healthcare, and education, he predicted.

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Telecom Giant's Move Faulted

¶6. (C) Al-Awadi criticized Kuwaiti-based regional telecommunications company MTC's (now Zain) decision to move its headquarters to Bahrain (Ref B). He assured the CDA that this was not because of a lack of cooperation from the GOK or due to an unfriendly business environment in Kuwait. He said that the primary reason for the move is to save on taxes. Currently, by Kuwaiti law, MTC is required to donate 1.5% of its profits to the Kuwait Foundation for the Advancement of Science (KFAS), a state-sponsored organization that provides funding for the development of science and technology in Kuwait. Al-Awadi said that for MTC, this amounts to approximately 4.5 million Kuwaiti dinars (approx. 15.8 million USD). By moving its worldwide headquarters to Bahrain, MTC will be able to go from donating 1.5% of its worldwide profits to 1.5% of its Kuwaiti profits. This, in Al-Awadi estimation, will constitute savings of about 3 million KD (approx. 10.5 million USD). (Note: Per Ref B, MTC decided to move its headquarters from Kuwait because it found Bahrain's business climate to be much more favorable. The GOK does not appear to have gotten the message.)

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